



Leading The Way III

A Report on Boston's Housing Strategy For 2009 - 2012

Plan Summary

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Thomas M. Menino
Mayor



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CITY OF BOSTON ADMINISTRATION

Thomas M. Menino, Mayor

Evelyn Friedman, Chief of Housing and Director,
Department of Neighborhood Development

William Good, Commissioner, Inspectional Services Department

Sandra B. Henriquez, Administrator/CEO, Boston Housing Authority

John Palmieri, Director, Boston Redevelopment Authority

Lisa Signori, Chief Financial Officer

Victoria Williams, Commissioner, Boston Fair Housing Commission

MAYOR'S HOUSING ADVISORY PANEL 2008

Mr. Peter L. Slavin, MD, President
Massachusetts General Hospital

Mr. Aaron Gornstein, Executive Director
Citizens' Housing and Planning Association

Mr. Eric Belsky, Executive Director
Joint Center for Housing Studies

Ms. Melinda Marble, Executive Director
Paul & Phyllis Fireman Family Foundation

Mr. Arnold Johnson
Crosswinds Enterprises Inc.

Ms. Lisa Alberghini, Executive Director
Planning Office of Urban Affairs,
Archdiocese of Boston

Ms. Jen Springer
Metropolitan Boston Coordinator AFSCME

Rev. Dr. John M. Borders III, Senior Pastor
Morningstar Baptist Church

Ms. Vanessa Calderon-Rosado, Chief
Executive Officer Inquilinos Boricuas en Accion

Ms. Esther Schlorholtz, Senior Vice President
and CRA Officer Boston Private Bank and Trust

Leading The Way III

Boston's Housing Strategy 2009-2012

PLAN SUMMARY

In October 2000, Mayor Thomas M. Menino announced the implementation of the first of two comprehensive housing strategies that would be issued under the name *Leading the Way*. Both strategies shared similar goals: to alleviate the pressure put on the housing market by the housing bubble, and the attendant sharp rise in sales and rental prices, by meeting the pent-up demand for new housing stock. To achieve these goals, the strategies adopted comparable objectives, primarily the production of new market-rate and affordable housing, and the preservation of existing affordable housing.

Over the course of the seven years that *Leading the Way I* and *II* were implemented, more than 18,000 new units of housing, including 5,000 affordable units, were built. This output represented nearly \$5 billion in investment of private and public sources of funding. In addition, nearly 9,500 units of affordable housing were preserved. This remarkable output was achieved by a cross-cabinet collaboration of several City of Boston departments, including the Department of Neighborhood Development (DND), the Boston Redevelopment Authority (BRA), the Boston Housing Authority (BHA) and the Inspectional Services Department (ISD); each Agency agreed to production goals and created the necessary strategies to achieve them.

With the success of both of these strategies in mind, and early indications of a changing economic landscape on the horizon, Boston hosted a national conference in the spring of 2007 as it looked to create its next overarching housing policy. At *Boston 2012*, some of America's most accomplished housing leaders shared their perspectives on the coming housing market and described innovative strategies. In turn, those best practices were distilled for the consideration of the Mayor's Housing Advisory Panel convened by Mayor Menino in 2008. By that time, it had become apparent that Boston had not been immune to the global housing market crisis. With the rise in foreclosures, and the leading edge of the credit crisis negatively effecting lending, it was clear that a different approach to Boston's housing challenges would be required.

All of these factors, along with the opinions of key stakeholders from Boston's for-profit and non-profit development community, have been formulated into this new *Leading the Way* housing strategy, which will become Boston's overarching housing policy for 2009 through 2012. *Leading the Way III* will focus on four critical areas in Boston's changed housing market, and lays out new strategies and goals for housing production and preservation that account for the changed socioeconomic environment, while planning for mitigation of the worst of its effects via ambitious prevention tactics. This Plan Summary will encapsulate the major goals and key strategies of the four areas. An unabridged version of this policy will be published on the City of Boston's website, www.cityofboston.gov.

1. HOUSING BOSTON'S WORKFORCE

Boston's workforce is divided into two dominant categories. Forty-four% of Boston's workforce occupy highly-paid professional or managerial jobs. Most of this cohort holds a bachelor's degree, and therefore has both the scale and resources to drive the demand in Boston's housing market. However, an equivalent 44% or nearly 140,000 members of the workforce occupy the lower-paid service and retail job tier. This cohort is heavily burdened by housing costs; more than 32,000 of the households in this economic tier pay greater than 50% of their income on rent, far above the 30% standard that is considered an acceptable level of expenditure.

Boston's strategy to house this diverse workforce has a three-tiered plan which reflects not only the differing needs of the three socioeconomic levels, but the unalterable fact that for Boston to retain and recruit employers, affordable housing for all tiers of workers is a must.

The Central Boston Plan. While current housing and credit market conditions would seem to render any new housing production inadvisable, this is not universally true. In the centrally-located neighborhoods of the Back Bay/Beacon Hill, Central Boston, Charlestown, Fenway/Kenmore, South Boston/Seaport, and the South End, not only are median sales prices rising, they established a new record in the last half of 2008, eclipsing that set at the pinnacle of the housing market in early 2006. New production to meet demand is more than feasible for these neighborhoods, although illiquidity in the credit markets has been an impediment that is likely to result in delays of new production permitting especially if these problems persist beyond 2009. For the first years of *Leading the Way III*, completing construction of already-started projects will be a priority. To promote continued access to these high-cost neighborhoods, the City will ensure that at least 13% of these new units will be below-market units, affordable to moderate-to-middle income households.

2012 TARGET. 3,000 new market-rate units.

2012 TARGET. Complete construction of 2,000 units permitted prior to *Leading the Way III*.

Creating Access to Homeownership. By contrast, in the high-foreclosure neighborhoods of Dorchester, Mattapan, Roxbury, Hyde Park and East Boston, median sale prices have dropped by 33.6% since the early 2006 peak. Two- and three-family homes have lost value at even higher rates. However unfortunate this circumstance has been for those adversely affected by the foreclosure crisis, it represents what may be a short-lived opportunity for those who had been previously priced out of these micro-housing markets.

Aiding qualified buyers to overcome tighter credit and downpayment requirements from the lending industry can help stabilize these neighborhoods. The City will expand and enhance its homeownership programs and services to provide more aid to transform middle-income renters into successful first-time homebuyers.

2012 TARGET: Increase the rate of assistance to homebuyers by 50% and create 1,500 new homebuyers.

Housing for Boston's Service Workers. Affordable rental housing development for the lowest-paid of Boston's workers has been adversely affected by the dismal performance of Low Income Housing Tax Credits in the credit markets. This has made financing these critical projects far more difficult. The provisions of The American Recovery and Reinvestment Act of 2009 will help advance the "shovel-ready" portion of the City's affordable rental housing pipeline, but does not offer a resolution for the projects that are not yet in pre-production. Due to this, the City's commitment to production of 1,000 new units in this class of housing is likely to be a difficult goal to achieve. It is, however, a goal that the City intends to strive for, in hopes that credit market problems will be resolved well before 2012. Although the City has committed itself to the difficult task of maintaining its rental production rate at levels at or close to its historic rate of *Leading the Way II*, it cannot make the same commitment for those affordable rental housing units produced through the private market via its inclusionary development policy. That number is expected to drop significantly from those historic high levels, due to the economic downturn.

2012 TARGET: 1,000 new affordable rental units.



2. ADDRESSING THE FORECLOSURE CRISIS

Since foreclosures began to accelerate in 2006, there have been 2,179 home foreclosures in Boston. In 2008 alone, 1,215 of these occurred. However, unlike almost every other major city, neither of those numbers represents a record-setting number of foreclosures for Boston. In fact, the 2008 number is actually 28% below the peak of 1,679 homes foreclosed upon during the recession of the early 1990s. Boston's current success in limiting the number of foreclosures is due to its early enactment of prevention strategies. The foreclosure strategy for *Leading the Way III* expands that approach into the 4-part plan outlined below.

Prevention. In the late 1990's, Boston identified the dangers of widespread and irresponsible subprime lending and took direct action to reduce its potential effects on Boston's homeowners. In 1999, the City launched the *Don't Borrow Trouble* campaign, warning people away from those attractive but dangerous loan products. Not content to simply warn consumers about the potential pitfalls of some of these products, the City also offered affordable and stable alternatives through its Boston Home Center. Of the more than 4,000 homebuyers that chose to finance or refinance with the Boston Home Center's partner lenders instead of with a subprime lender, only 1.3% have ended up in foreclosure, a rate less than one-third the 4% rate experienced in the Boston's overall housing market. With radical changes in the current mortgage marketplace, new products and services are rapidly evolving. Ensuring that Boston's homeowners and new buyers find loans that best suit their needs and are sustainable in the long run will be a key priority for the City in the coming years. In addition, helping homebuyers understand the risks and opportunities that come with purchase of a bank-owned foreclosed property will be an important new function of the Boston Home Center.

2012 TARGET: 15,000 homebuyers and homeowners completed financial education training or foreclosed property acquisition training.

Intervention. In early 2006, a year before the foreclosure issue began to be featured on the front of newspapers the world over, the Boston Home Center began its foreclosure prevention counseling program. By the end of the year, it had expanded its services to include five community-based agencies around the city. As of the issuance of this report, more than 40% of the homeowners who complete their participation in these counseling programs have been able to save their homes. More than 450 homes have been saved, resulting in a citywide foreclosure rate 20% lower than what it would have been, had these owners been unable to avert foreclosure.

2012 TARGET: Save 1,000 homeowners from foreclosure.

Reclamation. As of the writing of this plan, there are 966 bank-owned foreclosed properties in Boston. Nearly a third of these properties are in troubled or abandoned condition. Returning them to productive use is critical to stabilizing neighborhood housing markets and stemming the tide of further foreclosures. Boston's strategy to reclaim these properties will cover a diverse range of options, and routing of these properties will be largely

dependent upon the condition of the foreclosed property itself. The strategies will also take into account the densities of foreclosures in specific micro-neighborhoods, and attempt wherever possible to create economies of scale. Some of the strategies that have been decided upon include: 1) Bulk Acquisitions of properties from foreclosing banks at discounted prices via a BRA/DND partnership. Depending upon their condition at purchase, properties will be sold to homebuyers or to qualified contractors and developers for renovation and reoccupancy; 2) Direct Downpayment and Rehabilitation Assistance to homebuyers acquiring foreclosed properties in the open market; 3) Turnkey Homeownership where contractors and professional developers receive funding to acquire and renovate foreclosed properties for eventual sale to a homebuyer, and; 4) Rental Development where developers or non-profits acquire and rehabilitate foreclosed properties for use as long-term affordable rental housing, including housing for homeless families.

2012 TARGET: Reclaim and reoccupy 500 units of bank-owned foreclosed housing with City assistance.

Stabilization. In February 2008, Mayor Menino created the Foreclosure Intervention Team (FIT), as a response to the high number of foreclosures in the Hendry Street area of Dorchester, one of the Boston neighborhoods hardest hit by the expanding crisis. The FIT represents a comprehensive interagency effort to undo the damage that results from a high concentration of foreclosed and abandoned homes. The effort focuses not just on acquisition and renovation of bank-owned foreclosed properties, but also on identifying and intervening at troubled properties before they become foreclosed and abandoned. This intervention may take the form of code enforcement or police involvement to reduce or prevent criminal activities (which often occur in areas with high concentrations of abandoned properties), or targeted public investment including improvements to street surfaces, lighting and public spaces, as well as graffiti removal. In addition, support for existing homeowners wanting to repair their properties, as well as outreach to tenants living in troubled, abandoned or foreclosed properties is also made available. Outreach efforts range from door-to-door direct intervention to partnerships with local non-profits, community meetings, and ensuring that all City workers responding to a FIT area have programmatic information to make available to inquiring residents. As the foreclosure crisis expanded, two additional FIT areas in Dorchester and Roxbury were designated in mid-2008. Foreclosure activity and patterns will continue to be closely monitored, so that if necessary, intervention will occur as early as possible.

TARGET 2012: Stabilize all FIT areas so that these communities no longer have high abandonment levels, excessive crime conditions or falling property values.

3. REVERSING THE RISE IN HOMELESSNESS

For many years, the rate of homelessness in Boston was relatively stable, rising at a rate of about 1% per year from 1994-2004. During the first two *Leading the Way* initiatives, several goals for homelessness reduction were achieved: reclamation of more than 600 vacant public housing units, the vast majority of which went to the homeless; a substantial reduction (63%) of the number of seniors living on the streets and placement for them in permanent housing; placement of homeless individuals living on the streets into permanent affordable housing via the Common Ground Initiative; production of Single Person Occupancy (SRO) housing to offset the loss of lodging houses; and creation of a new Homelessness Prevention Clearinghouse, a one-stop location where at-risk individuals and families could go for assistance to avert homelessness. With rents and home sales prices rising at double-digit rates during the years between 2000 and 2006, these initiatives worked to prevent homelessness from skyrocketing among Boston's most vulnerable populations.

By 2006, however, a disturbing new trend had developed. While the number of children in homeless families had remained relatively stable at approximately 1,300 from 2000-2005, that number jumped 14% to 1,540 in 2006. By December 2008, it had risen to 2,288 children, a 70% increase over the 2005 level. Reversing this boom in homeless families is a central priority for *Leading the Way III*.

In addition, there are 746 individuals that have been in Boston's shelter system for more than a year. Long-term shelter stays are relatively costly, and since shelters were intended to be used for emergency purposes, a poor option for housing Boston's homeless. Such long-term use also consumes a significant part of capacity, leading to the need for overflow beds during peak periods. In *Leading the Way III*, it will be a priority to move these long-term homeless individuals into affordable and supportive permanent housing situations that will provide a much better living environment and conserve shelter resources.

For Boston to succeed in its efforts to reduce homelessness, action must be taken on two fronts: to reduce the inflow into the shelter system by preventing homelessness from occurring, and to significantly decrease the length of time in which homeless individuals and families remain in shelter before they go to a stable permanent housing situation. A three-tiered effort is outlined below.

Prevention. Preventing homelessness is both the most humane and cost effective way to reduce homelessness. However, by the time many individuals and families interact with the shelter system it may be too late for outright prevention to occur. In addition, the unprecedented increase in the number of homeless families is putting pressure on an already burdened shelter system. New strategies will include: creation of a shelter diversion program designed to find non-shelter housing options for families looking for emergency shelter; establishment of early warning systems via stronger partnerships with the public schools and health centers, organizations that

often are among the first to realize that a family is at-risk for homelessness; and expansion of stabilization services to help people remain housed during periods of temporary loss of income. Funding from The American Recovery and Reinvestment Act of 2009 will greatly enhance the City's ability to augment these homelessness prevention efforts.

Placement. With nearly 50,000 units of affordable and subsidized housing in Boston, the homeless are often at a disadvantage in gaining access to these units as they become available. By setting up mechanisms for better communications between care and shelter providers and those organizations with access to permanent housing, the long-term shelter populations can be reduced. In particular, higher vacancy rates in subsidized efficiency and SRO units provide a good opportunity to move more of Boston's long-term homeless individuals out of shelter and into permanent housing.

Production. New production of housing for homeless families, as well as supportive units suitable for the long-term homeless individuals, will be needed to increase the rate at which families and individuals move from homelessness to housing. The City intends to expand its homeless housing production by doubling its homeless set-aside rate from 10% to 20%, and will seek to double its annual rate of homeless housing production between 2009 and 2012. This latter production goal will be achieved via a new Homeless Housing Production Partnership between DND and the BHA. However, achieving this goal will likely require intervention from the federal government to address the aforementioned Low Income Housing Tax Credit problem, so that projects beyond the "shovel-ready" components of the production pipeline can be funded.

Boston First Targeting. While Boston has a homeless priority in its rental assistance programs such as Section 8, many, if not most, local and regional entities in Greater Boston do not. This means that fewer homeless get housed in these jurisdictions and more come to Boston looking for help. It is estimated that approximately 25-30% of Boston's Annual Homeless Census represents individuals and families whose last known address was outside of Boston. Until there is a universal homeless preference across the region, Boston must prioritize its own first. All 2012 Targets refer to Boston's homeless population only.

TARGET 2012: Reduce Boston Family Homelessness by 50%.

TARGET 2012: Reduce Long-Term Homelessness for Individual Bostonians by 50%.

4. PRESERVING & STABILIZING BOSTON'S RENTAL HOUSING MARKET

Boston has almost 50,000 units of affordable housing, and one in five Bostonians depend on this stock for an affordable place to live. However, many of these units are potentially at-risk due to expiring affordability agreements or from physical or financial distress. Almost 14,000 units are in the public housing inventory, which has been so underfunded by the federal and state governments that there are \$500 million of unmet capital needs, putting many of those units at substantial risk. An additional 29,000 units of privately owned affordable housing are potentially at-risk due to expiring affordability agreements.

At the end of *Leading the Way II* in 2007, 5,691 at-risk federal units had been preserved and 1,520 public housing units had been renovated, including 626 long-vacant units. 1,066 at-risk State-funded units had been retained through financial restructuring and through a strengthening of the rental market. Another 1,214 units of other affordable rental housing had been preserved through rehabilitation and financial restructuring and conversion from market-rate to assisted subsidized or affordable housing. In total, 9,491 units of affordable rental housing were preserved over the seven years of *Leading the Way*.

For *Leading the Way III*, the City intends to maintain and improve on this success with strategies for each of the three categories of affordable rental housing.

City-Owned Housing. To continue its long-term commitment to restore and repair all of its aging housing stock, the BHA will enact four strategies:

Capital Fund Financing. In April 2008, an \$82 million bond was issued to fund up-front capital improvements. This bond will be paid for out of future federal capital fund allocations and the savings generated by operating efficiencies as outdated and inefficient systems are replaced with newer more efficient ones. The BHA will also utilize \$33 million in new capital funding from The American Recovery and Reinvestment Act of 2009 for these improvements.

Energy Performance Contracting. Energy upgrades will be undertaken by energy providers, who will bear the initial costs and be repaid out of the energy cost savings resulting from those improvements.

Redevelopment through Public Private Partnership. There are very distressed developments where redevelopment, not renovation, will be required. HOPE-VI funds from the federal government will be a critical element of any such redevelopment. In the spring of 2009, the 266-unit Franklin Hill development will be nearing completion, and the Washington Beech redevelopment is expected to begin.

Redevelopment through Project-Based Vouchers. The BHA is developing a pilot initiative in which some of its developments that serve elderly and disabled clients would be redeveloped via a project-based voucher model intended to generate enough additional income to finance major capital improvements.

State- and Federally-Assisted Housing. There are 5,583 units of privately-owned affordable housing potentially at-risk for converting to market-rate status between 2009 and 2012. Of those, 930 units are rated as highly at-risk, because they are currently owned by individuals who have opted out of affordable housing agreements in the past. Another 2,197 units are rated as moderately at-risk, as they are currently owned by for-profit owners who have always renewed their previous contracts. The remaining 2,456 units are reasonably protected from becoming market-rate units due to existing agreements, including non-profit, cooperative or tenant ownership structures. However, these units still may be at-risk for serious financial or physical problems. There are four key elements to Boston's strategy to retain these units of privately-owned affordable housing.

Monitoring & Early Warning. Like other preventive models mentioned in this document, the idea here is to work with owners well ahead of their expiry dates, thereby ensuring adequate lead time to work on any issues that might impede a renewal of affordability agreements and contracts.

Enforcing Agreements. Diligent enforcement of 121(a) and Land Disposition Agreements by the BRA has been a very effective tool to bring owners to the table to extend their affordability commitments.

Financial & Physical Restructuring. Where owners are responsible landlords, but the circumstances of the property or its location have resulted in a financial or physical threat to the development, the City will arrange a financial restructuring and physical renovation in exchange for a substantial extension of affordability.

Buyouts. Where the owner is unable or unwilling to manage the property properly, the City will support the buyout of the property by a responsible for-profit or non-profit owner, in exchange for a substantial extension of the affordability requirements.

Even with all these strategies, some developments cannot be saved. For these cases the City is looking to both the state and federal governments to pass proposed legislation that would effectively require these recalcitrant owners to give first option to purchase to buyers that agree to retain affordability for the long term.

Private Market-Rate Rental Housing. 58% of Boston's renters (82,000 households) live in private market-rate rental housing without government assistance. Of these, many (32,669 households) have very high rent burdens, exceeding 50% of their income. Stabilizing the tenancies of households living in this unregulated rental housing will be an expanded preservation priority for *Leading the Way III*. While the City's abilities to influence the activities in the private rental stock are considerably more limited than its capacities with government-assisted stock, there are a number of strategies which it can employ.

Foreclosures. More than half of the foreclosures in 2008 were upon the property of investor-owners, resulting in a significant amount of tenant displacement. In addition, since much of Boston's housing stock is multi-family, foreclosures upon owner-occupied properties also result in tenant displacement. It is estimated that 77% of the people displaced through

foreclosures in 2008 were renters, a figure three times that of homeowner displacement. In 2008 alone, that would mean that some 1,500 tenants lost their housing due to foreclosure. To combat this worrisome trend, the City has implemented a non-eviction policy on all bank-owned foreclosed properties that it is buying from lenders. In addition, it is reaching out to tenants in recently-foreclosed properties to ensure that they are aware of their rights under the law. Finally, emergency repair funds are being allocated to ISD to enable them to make critical repairs and maintain the habitability of tenanted bank-owned foreclosed properties.

Tenant Education. Since rent control ended in 1994, a key function of the City has been to educate tenants about their rights and responsibilities under the law. Tenants that understand their rights have frequently been able to fight unjust evictions. The City will seek to expand this effort with more training workshops.

Assistance to Landlords. Helping property owners to become better landlords has significant benefits for both the owners and their tenants, as well as the larger neighborhood. To facilitate this, the City will offer education and mediation services along with grant and loan assistance for lead paint abatement. Vacant units in owner-occupied houses with foreclosure activity will also be targeted for services in hopes of forestalling foreclosure. Where necessary, renovation and repair assistance will be given to return unrentable units to occupancy status and restore the revenue stream.

Stabilizing Tenancies At-Risk Due To Job Loss. With Boston expected to lose an estimated 23,000 jobs by 2010, low-income tenants in unassisted housing are most at-risk of becoming homeless. The City's stepped up homelessness prevention efforts will be critical in these economic times.

Rental Housing Conversion. Where private properties occupied by lower-income tenants come on the market, the City will provide financial assistance to buyers who will agree to maintain affordability for the long term.

To facilitate this expanded tenant stabilization agenda, the City will be merging the Rental Housing Resource Center (RHRC) into the Department of Neighborhood Development. This merger of RHRC's technical assistance resources with the development and finance capacities of DND is expected to strengthen the City's ability to deliver a more comprehensive tenancy stabilization strategy than it has been able to in years past.

TARGET 2012: Preserve 5,000 Privately-owned affordable units.

TARGET 2012: Lose no more than 15% of the Federal/State units scheduled to expire between 2009 and 2012.

TARGET 2012: City-Owned Rental Housing: Repair, renovate or redevelop up to 5,000 units of public housing using existing and new resources from the American Recovery and Reinvestment Act of 2009.